

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 123 - HB 329

March 10, 2013

SUMMARY OF BILL: Requires the state to implement various technology solutions in order to automate reviews and analysis of claims and to prevent fraud, waste, and abuse within TennCare and CoverKids (the state Children's Health Insurance Program). The state is required to implement provider data verification and provider screening technology solutions into the claims processing workflow that will check billing and provider rendering data against a continually maintained provider database to prevent inappropriate payments and wrong addresses. The state is required to implement state-of-the-art predictive modeling and analytics technologies in a pre-payment position within the existing TennCare and CoverKids healthcare claim workflow in order to identify and analyze billing or utilization activity that presents a high risk of fraudulent activity; prioritize additional review of such transactions prior to payment based on likelihood of potential fraud, waste, or abuse; and prevent payment of claims for reimbursement identified through the system until the claims have been automatically verified. The state is authorized to contract for reimbursement to the contractor on the basis of a percentage of achieved savings model, a per beneficiary per month model, a per transaction model, a case-rate model, or any combination of these models. Reimbursement may also include performance guarantees by the contractor to ensure savings identified exceeds program costs. Savings achieved through these contracting methods and through implementation of the required technology solutions are intended to be used to cover the costs of implementation and administration.

ESTIMATED FISCAL IMPACT:

**Increased State Expenditures - \$3,750,000/One-Time
\$750,000/Recurring**

**Increased Federal Expenditures - \$3,750,000/One-Time
\$750,000/Recurring**

Assumptions:

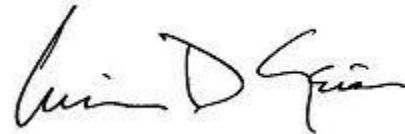
- According to the Bureau of TennCare (the Bureau), a centralized database for all TennCare and CoverKids claims data does not exist. To comply with the verification and screening requirements, the Bureau will be required to construct database infrastructure.
- According to the Bureau, construction of infrastructure for a centralized database would result in a one-time increase in state expenditures of \$7,500,000 which includes

\$3,000,000 for hardware and software licensing and \$4,500,000 for application design and development. Of this amount, \$3,750,000 will be state funds at a rate of 50 percent and \$3,750,000 will be federal funds at a 50 percent match rate.

- There will be a recurring increase in expenditures of \$1,500,000 for annual operations costs. Of this amount, \$750,000 will be state funds at a rate of 50 percent and \$750,000 will be federal funds at a 50 percent match rate.
- According to the Bureau, the program currently contracts with a Recovery Audit Contractor (RAC) for after payment review that is paid on a 12 percent contingency fee contract for recoveries. Historically, CMS has limited the amount of recovery on contingency fee contracts. The current RAC contract limit is based on Medicare's maximum contract rates of 12.5 percent for all claims except durable medical equipment which has recently been increased to 17.5 percent.
- According to the Bureau, participating managed care organizations (MCOs) currently utilize prospective audits of claims and the savings realized by the state are built into the MCO capitation rates.
- Based on CMS's stance and the current RAC contracted contingency rate, the Bureau estimates that the expenditures incurred through construction and maintenance of a database to duplicate current activities would not be offset by additional savings.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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